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REPORT OF THE SECRETARY-GENERAL PURSUANT TO PARAGRAPH 4 OF SECURITY COUNCIL RESOLUTION 699 (1991)

1. The present report is submitted pursuant to paragraph 4 of Security Council resolution 699 (1991), of 17 June 1991, which reads as follows:

> "Decides to encourage the maximum assistance, in cash and in kind, from all Member States to ensure that activities under section C of resolution 687 (1991) are undertaken effectively and expeditiously; further decides, however, that the Government of Iraq shall be liable for the full costs of carrying out the tasks authorized by section C; and requests the Secretary-General to submit to the Council within 30 days for approval recommendations as to the most effective means by which Iraq's obligations in this respect may be fulfilled".

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2. The fulfillment by the Government of Iraq of the obligations set out in paragraph 4 quoted above is contingent upon both the availability of funds to meet the financial requirements, as well as concrete arrangements to ensure that the necessary resources are channelled to the United Nations.

3. It will be recalled that the Security Council, in deciding upon the financing of the Compensation Fund, did not envisage the use of "frozen assets" of Iraq held in third countries (see paragraph 16 of the Secretary-General's report dated 2 May 1991 pursuant to paragraph 19 of Security Council resolution 687 (1991), document S/22559). It is therefore assumed that the Council would not wish these assets to be used to meet Iraq's obligations in connection with the fulfillment of paragraph 4 of this resolution.

4. The Secretary-General considers that the most obvious way of obtaining financial resources for this purpose would be the sale of some Iraqi petroleum and petroleum products. The net proceeds of such sales would be deposited in a United Nations account to be used to reimburse the costs of carrying out the tasks authorized under section C of Security Council resolution 687 (1991). The quantities to be sold would therefore have to be established in the light of these costs.

5. While the approach outlined above might ensure that Iraq can meet these financial obligations, it would, at the same time, reduce the resources available for the Compensation Fund and/or those remaining for the Government of Iraq. In this connection, the Secretary-General, in determining the appropriate level of Iraq's contribution to the Compensation Fund, had taken account of: (a) the requirements of the people of Iraq; (b) Iraq's payment capacity, taking into consideration external debt servicing; and (c) the needs of the Iraqi economy.

6. The approach proposed in paragraph 5 above would also necessitate that the sanctions imposed on Iraq under Security Council resolution 661 (1990) be lifted, for a limited period and under clearly defined conditions. It may be necessary to repeat this process in the light of the ultimate costs to be reimbursed.

7. This arrangement presupposes cooperation by Iraq as well as strict supervision of the sale of petroleum and petroleum products from Iraq. To this end, appropriate monitoring would have to be ensured. Should Iraq fail to meet its payment obligations, the Secretary-General would need to report the matter to the Security Council.

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8. Following the adoption of Security Council resolution 699 (1991), the Secretary-General requested the Permanent Representative of Iraq to inform him by 10 July 1991 of the manner in which the Government planned to meet its obligations under paragraph 4 of that resolution. The reply of the Government of Iraq, dated 7 July 1991, reads as follows:

> "With reference to your letter dated 26 June 1991 I have the honour to inform you that my Government still believes that its offer to take an initiative and destroy the weapon systems would have reduced the costs of destroying the weapons and reduced the related risks and time and would have been the safest solution, but the Security Council did not favour this offer and issued its rash and unfair resolution 699 (1991). Nevertheless, Iraq has recently received encouraging signals from the Special Commission concerning this offer to destroy the chemical weapons, and this offer is still valid and it together with Iraq's experience in this area should help in carrying out the tasks assigned to the Special Commission and the IAEA under part C of resolution 687 (1991)."

9. It should be noted in this connection that the Special Commission is considering the Iraqi offer and no decision has yet been taken on this matter.

10. As far as assistance in cash and in kind is concerned, it may be of interest to the Security Council to note that as of 15 July 1991, voluntary contributions in the amount of $US 2 million have been received from Member States in response to paragraph 4 of Security Council resolution 699 (1991).